

**POCAHONTAS AREA
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2011

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POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Raymond Seehusen	President	2013
Jeff Kerns	Vice President	2013
Greg Fritz		2011
Dan Duitscher		2011
Richard Garner		2013
Darwin Eaton		2011
John Behrendsen		2011

School Officials

Joseph Kramer	Superintendent
Diane Pattee	District Secretary/ Treasurer

BRUCE D. FRINK

Certified Public Accountant

Member:

- American Institute of Certified Public Accountants

- Iowa Society of Certified Public Accountants

Services:

- Individual, Partnership and Corporate Tax Preparation

- Year Round Tax Planning

- Payroll & Sales Tax Preparation

- I.R.S. Representation

- Monthly/Quarterly Write-Up

- Data Processing Services

- Payroll Preparation

- Financial Statement Preparation

- Bank Loan Assistance

Plus:

- Over 30 years of Expertise and Experience

- Evenings & Saturdays Available by Appointment

- Extended Hours During Tax Season

Independent Auditor's Report

To the Board of Education of
Pocahontas Area Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of Pocahontas Area Community School District, Pocahontas, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities and each major fund of Pocahontas Area Community School District at June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated March 26, 2012 on our consideration of Pocahontas Area Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

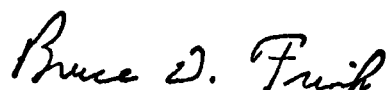
The voters of the District approved reorganization with the Pomeroy-Palmer Community School District effective July 1, 2012.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 12 and 36 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

202 Central Avenue East
P.O. Box 241
Clarion, IA 50525

Phone: (515) 532-6659
Fax: (515) 532-3677
bruce@frinkcpa.com

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pocahontas Area Community School District's basic financial statements. We previously audited the financial statements for the seven years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 and 3, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Bruce D. Frink". The signature is written in a cursive, flowing style.

BRUCE D. FRINK
Certified Public Accountant

March 26, 2012

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Pocahontas Area Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,945,924 in fiscal year 2010 to \$6,516,549 in fiscal year 2011 (a 10% increase), while General Fund expenditures decreased from \$6,013,976 in fiscal year 2010 to \$5,917,366 in fiscal year 2011 (a 2% decrease).
- General Fund revenues increased due to restoration of state aid funding and property tax increases. The General Fund balance increased nearly \$600,000 over the prior fiscal year.
- Statewide sales, services and use tax revenues are being used for new building construction and property tax relief to service the debt incurred for this project.
- In 2009, the voters approved a \$10,890,000 bond issue for the construction of a new junior-senior high building and improvements to the existing facility. Construction on the facility continued into 2011, and will be completed in FY12.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Pocahontas Area Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Pocahontas Area Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Pocahontas Area Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the Student Activity Fund and a multiyear comparison of revenues and expenses. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Pocahontas Area Community School District Annual Financial Report

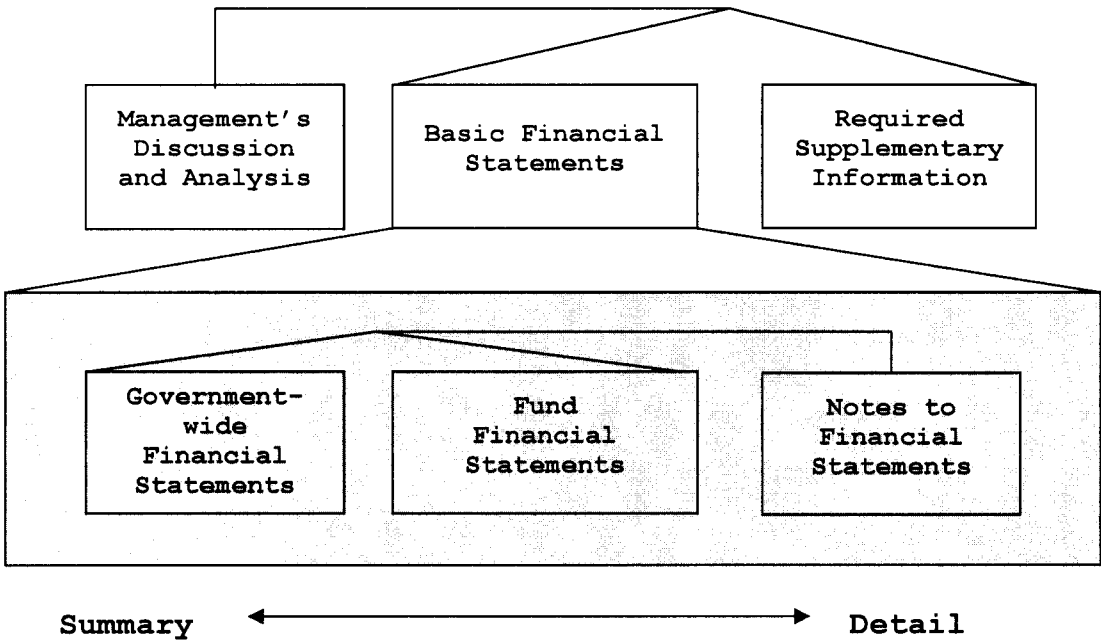


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Fund	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and day care	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition and day care programs are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. The District has elected to present all funds as "major" for clarity of presentation.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Funds.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Fund, one type of proprietary fund, is the same as its business type activities but provides more detail and additional information, such as cash flows. The District currently has two Enterprise Funds, the School Nutrition Fund and Discovery Daycare.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Funds.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2011 compared to June 30, 2010.

<p align="center">Figure A-3 Condensed Statement of Net Assets (Expressed in Thousands)</p>							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-2011
Current assets	\$ 10,212	14,932	121	110	10,333	15,042	-31.31%
Capital assets	11,495	5,661	10	1	11,505	5,662	103.20%
Total assets	<u>21,707</u>	<u>20,593</u>	<u>131</u>	<u>111</u>	<u>21,838</u>	<u>20,704</u>	<u>5.48%</u>
Current liabilities	4,604	3,917	10	17	4,614	3,934	17.29%
Non-current liabilities	10,429	10,937	-	-	10,429	10,937	100.00%
Total liabilities	<u>15,033</u>	<u>14,854</u>	<u>10</u>	<u>17</u>	<u>15,043</u>	<u>14,871</u>	<u>1.16%</u>
Net Assets							
Invested in capital assets, net of related debt	1,300	1,661	10	3	1,310	1,664	-21.27%
Restricted	3,961	3,118	-	-	3,961	3,118	27.04%
Unrestricted	1,413	960	111	91	1,524	1,051	45.00%
Total net assets	<u>\$ 6,674</u>	<u>5,739</u>	<u>121</u>	<u>94</u>	<u>6,795</u>	<u>5,833</u>	<u>16.49%</u>

Total assets grew over 16%. Capital assets will grow and restricted assets will decrease as payments are made on the new high school/middle school building. Unrestricted assets grew over \$470,000 as the General Fund increased due to a combination of increased revenues and cost containment measures.

Figure A-4 shows the changes in net assets for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-4 Changes in Net Assets (Expressed in Thousands)							
Governmental Activities		Business Type Activities		Total District		Total Change	
2011	2010	2011	2010	2011	2010	2010-2011	
Revenues:							
Program revenues:							
Charges for service and sales	\$ 705	788	329	287	1,034	1,075	-3.81%
Operating grants, contributions and restricted interest	1,673	1,915	164	185	1,837	2,100	-12.52%
General revenues:							
Property tax	3,460	3,174	-	-	3,460	3,174	9.01%
Income surtax	201	224	-	-	201	224	100.00%
Statewide sales, services and use tax	321	273	-	-	321	273	17.58%
Unrestricted state grants	1,610	1,494	-	-	1,610	1,494	7.76%
Unrestricted investment earnings	11	26	-	-	11	26	-57.69%
Other	67	68	-	-	67	68	-1.47%
Total revenues	<u>8,048</u>	<u>7,962</u>	<u>493</u>	<u>472</u>	<u>8,541</u>	<u>8,434</u>	<u>1.27%</u>
Program expenses:							
Governmental activities:							
Instruction	4,238	4,255	-	-	4,238	4,255	-0.40%
Support Services	1,654	1,822	-	-	1,654	1,822	-9.22%
Non-instructional programs	-	2	466	436	466	438	6.39%
Other expenses	<u>1,222</u>	<u>1,142</u>	<u>-</u>	<u>-</u>	<u>1,222</u>	<u>1,142</u>	<u>7.01%</u>
Total expenses	<u>7,114</u>	<u>7,221</u>	<u>466</u>	<u>436</u>	<u>7,580</u>	<u>7,657</u>	<u>-1.01%</u>
Change in net assets	<u>\$ 934</u>	<u>741</u>	<u>27</u>	<u>36</u>	<u>961</u>	<u>777</u>	<u>-23.68%</u>

Property tax and unrestricted state grants account for 59% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 78% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$8,048,393 and expenses were \$7,113,995 for the year ended June 30, 2011.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services, non-instructional programs and other expenses, for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-5 Total and Net Cost of Governmental Activities (Expressed in Thousands)						
Total Cost of Services			Net Cost of Services			
		Change			Change	
	2011	2010	2010-2011	2011	2010	2010-2011
Instruction	\$ 4,238	4,255	-0.40%	2,230	2,116	5.39%
Support services	1,654	1,822	-9.22%	1,601	1,652	-3.09%
Non-instructional programs	-	2	-100.00%	-	2	-100.00%
Other expenses	1,222	1,142	7.01%	905	748	20.99%
Totals	<u>\$ 7,114</u>	<u>7,221</u>	<u>-1.48%</u>	<u>4,736</u>	<u>4,518</u>	<u>4.83%</u>

For the year ended June 30, 2011:

- The cost financed by users of the District's programs was \$705,017.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,089,631.
- The net cost of governmental activities was financed with \$3,459,849 in property tax and \$1,610,241 in state foundation aid.

Business-Type Activities

Revenues for business type activities for the year ended June 30, 2011 were \$493,214 and expenses totaled \$466,372. The District's business type activities include the School Nutrition Fund and Discovery Daycare. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

The Discovery Daycare Center was established in 2008 as part of a 28E agreement with the city of Pocahontas and the Pocahontas Community Hospital. There is no financial responsibility on the part of the school.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted Pocahontas Area Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$5,300,319; a large decrease from last year's ending fund balances of \$10,712,592.

This is a result of the continuation of an \$11 million construction project which will be completed during the next fiscal year.

Governmental Fund Highlights

- The District's General Fund balance increased due to restoration of state revenues, increased property taxes and cost containment measures.
- The District's Capital Projects Fund decreased as a result of the District beginning work on the new building project.

Proprietary Fund Highlights

The District's Nutrition Fund increased primarily as a result of increased participation and cost containment measures.

The Discovery Day Care Center was formed in 2008 as part of a community venture. It enjoyed another profitable full year of operation.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and other major funds are not presented in the budgetary comparison on pages 36 and 37.

Legal Budgetary Highlights

The District's receipts were \$351,226 more than budgeted receipts, a variance of 4%. The most significant variance resulted from the District receiving more in local source revenue than originally anticipated.

Total expenditures were less than budgeted in total, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

The published budget was not exceeded in any of the four functions. The District did not exceed its unspent authorized budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the District had invested \$11.5 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a large increase from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$442,467.

The original cost of the District's capital assets was \$17,163,880. Governmental funds account for \$17,116,471, with the remainder of \$47,409 accounted for in the Proprietary School Nutrition Fund.

Figure A-6
Capital Assets, net of Depreciation
(Expressed in Thousands)

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-2011
Land	\$ 154	144	-	-	154	144	6.94%
Construction in progress	-	3,562	-	-	-	3,562	-100.00%
Site improvements	283	46	-	-	283	46	515.22%
Buildings	10,542	1,278	-	-	10,542	1,278	724.88%
Furniture and equipment	516	283	10	1	526	284	85.21%
Totals	\$ 11,495	5,313	10	1	11,505	5,314	116.50%

Long-Term Debt

The voters of the District approved a \$10.89 million bond issue in December, 2008 for the construction of a major addition to the existing middle school/high school. This will be paid off over the next twenty years beginning in June 2010. The balance at June 30, 2011 was \$10,195,000. The District received a \$360,000 loan from the U.S. Department of Agriculture Rural Development program for costs incurred with the Discovery Day Care Program. \$180,000 was unpaid at June 30, 2011.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Reorganization with Pomeroy-Palmer Community School District effective July 1, 2012 was approved by the voters of both districts.
- The District has experienced declining enrollment the past several years.
- The allowable growth rate of 2% or less provided by the Legislature is inadequate to meet expected cost increases.
- Iowa law requires that unsettled salary negotiations for teachers go to mandatory arbitration. Invariably arbitrated settlements are higher than current levels of allowable growth in funding (not including the budget cuts after the contracts have been settled and people have been hired).
- Health insurance continues to be a very costly item to the District. Even though concessions have been made by employees in regard to deductibles, and coinsurance, other solutions need to be found. The skyrocketing cost of health care and the insurance to cover the cost will soon be unattainable by many.
- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34", to name a few.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Diane Pattee, District Secretary, Pocahontas Area Community School District, 202 1st Ave SW, Pocahontas, IA 50574-1910.

Basic Financial Statements

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2011

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and pooled investments	\$ 5,718,357	108,720	5,827,077
Receivables:			
Property tax:			
Current year	35,113	-	35,113
Succeeding year	3,636,378	-	3,636,378
Income surtax - succeeding year	226,223	-	226,223
Due from other governments	515,406	-	515,406
Other receivables	80,234	7,807	88,041
Inventory	-	4,260	4,260
Capital assets, net of accumulated depreciation	11,494,823	9,581	11,504,404
Total assets	<u>21,706,534</u>	<u>130,368</u>	<u>21,836,902</u>
Liabilities			
Accounts payable	867,181	9,591	876,772
Accrued payroll and benefits	30,257	-	30,257
Accrued interest payable	70,640	-	70,640
Deferred revenue:			
Succeeding year property tax	3,636,378	-	3,636,378
Long term liabilities:			
Portion due within one year:			
USDA Rural Development Loans	26,667	-	26,667
General obligation bonds payable	370,000	-	370,000
Portion due after one year:			
Net OPEB liability	53,768	-	53,768
USDA Rural Development Loans	153,333	-	153,333
General obligation bonds payable	9,825,000	-	9,825,000
Total liabilities	<u>15,033,224</u>	<u>9,591</u>	<u>15,042,815</u>
Net assets			
Invested in capital assets, net of related debt	1,299,823	9,581	1,309,404
Restricted for:			
Employee benefits	151,353	-	151,353
Categorical funding	49,725	-	49,725
Student activities	112,275	-	112,275
Management levy	302,902	-	302,902
School infrastructure	3,009,967	-	3,009,967
Physical plant and equipment levy	295,539	-	295,539
Debt service	38,388	-	38,388
Unrestricted	1,413,338	111,196	1,524,534
Total net assets	<u>6,673,310</u>	<u>120,777</u>	<u>6,794,087</u>

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2011

	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
	Operating Grants, Contributions and Restricted Interest			Governmental Business Type Activities Activities Total		
	Expenses	Charges for Service				
Functions/Programs:						
Governmental activities:						
Instruction	\$ 4,238,340	705,017	1,302,679	(2,230,644)	-	(2,230,644)
Support services:						
Student services	191,528	-	-	(191,528)	-	(191,528)
Instructional staff services	121,600	-	-	(121,600)	-	(121,600)
Administration services	644,884	-	-	(644,884)	-	(644,884)
Operation and maintenance of plant services	429,691	-	52,852	(376,839)	-	(376,839)
Transportation services	265,860	-	-	(265,860)	-	(265,860)
	1,653,563	-	52,852	(1,600,711)	-	(1,600,711)
Non-instructional programs:						
Community service operations	-	-	-	-	-	-
Other expenditures:						
AEA flowthrough	247,984	-	247,984	-	-	-
Interest on debt service	435,671	-	291	(435,380)	-	(435,380)
Facilities acquisition and construction	97,581	-	69,286	(28,295)	-	(28,295)
Depreciation (unallocated)*	440,856	-	-	(440,856)	-	(440,856)
	1,222,092	-	317,561	(904,531)	-	(904,531)
Total governmental activities	7,113,995	705,017	1,673,092	(4,735,886)	-	(4,735,886)

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2011

	Program Revenues		Net (Expense) Revenues and Changes in Net Assets	
	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities
Expenses				Total
Business type activities:				
Non-instructional programs:				
Nutrition services	466,372	328,622	164,592	26,842
Total	<u>\$ 7,580,367</u>	<u>1,033,639</u>	<u>1,837,684</u>	<u>(4,709,044)</u>
General Revenues:				
Property tax levied for:				
General purposes			\$ 2,555,618	-
Management			180,127	-
Capital outlay			229,691	-
Debt service			494,413	-
Income surtax			200,788	-
Statewide sales, services and use tax			321,163	-
Unrestricted state grants			1,610,241	-
Unrestricted investment earnings			11,175	-
Other			67,068	-
Total general revenues			<u>5,670,284</u>	<u>-</u>
Change in net assets			934,398	26,842
Net assets beginning of year			5,738,912	93,935
Net assets end of year			<u>\$ 6,673,310</u>	<u>120,777</u>
				<u>6,794,087</u>

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2011

	General	Student Activity	Management Levy	Capital Projects				Debt Service	Total
				Statewide Sales Use Tax	Physical Plant and Equipment Levy				
Liabilities and Fund Balances									
Liabilities:									
Accounts payable	\$ 239,285	544	4,799	618,688	3,865			-	867,181
Accrued payroll and benefits	30,257	-	-	-	-			-	30,257
Deferred revenue:									
Succeeding year property tax	2,643,662	-	160,000	-	238,377			594,339	3,636,378
Succeeding year income surtax	226,223	-	-	-	-			-	226,223
Total liabilities	3,139,427	544	164,799	618,688	242,242			594,339	4,760,039
Fund balances:									
Restricted for:									
Categorical funding	49,725	-	-	-	-			-	49,725
Student activities	-	112,275	-	-	-			-	112,275
Management levy	-	-	302,902	-	-			-	302,902
School infrastructure	-	-	-	3,009,967	-			-	3,009,967
Physical plant and equipment levy	-	-	-	-	475,539			-	475,539
Debt service	-	-	-	-	-			38,388	38,388
Unassigned	1,311,523	-	-	-	-			-	1,311,523
Total fund balances	1,361,248	112,275	302,902	3,009,967	475,539			38,388	5,300,319
Total liabilities and fund balances	\$ 4,500,675	112,819	467,701	3,628,655	717,781			632,727	10,060,358

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2011

Total fund balances of governmental funds (Exhibit C)		\$ 5,300,319
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>		
Income surtax receivable at June 30, 2011 is not available to finance expenditures of the current fiscal period.		226,223
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		11,494,823
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		(70,640)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		
General obligation bonds	\$ (10,195,000)	
USDA Rural Development Loan	(180,000)	
Net OPEB liability	<u>(53,768)</u>	(10,428,768)
Internal Service fund assets that are to be included with governmental funds.		<u>151,353</u>
Net assets of governmental activities (Exhibit A)		<u><u>\$ 6,673,310</u></u>

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2011

	General	Student Activity	Management Levy	Capital Projects				Debt Service	Total
				Statewide Sales Use Tax	Physical Plant and Equipment Levy				
Revenues:									
Local sources:									
Local tax	\$ 2,754,485	-	180,127	321,163	229,691		494,413	3,979,879	
Tuition	705,017	-	-	-	-		-	705,017	
Other	109,725	182,100	11,417	69,286	41,192		-	413,720	
State sources	2,463,199	-	108	-	135		291	2,463,733	
Federal sources	484,123	-	-	-	-		-	484,123	
Total revenues	6,516,549	182,100	191,652	390,449	271,018		494,704	8,046,472	
Expenditures:									
Current:									
Instruction	4,026,607	188,434	96,773	-	-		-	4,311,814	
Support services:									
Student services	191,528	-	-	-	-		-	191,528	
Instructional staff services	121,600	-	-	-	-		-	121,600	
Administration services	637,384	-	-	-	7,500		-	644,884	
Operation and maintenance of plant services	426,403	-	103,288	-	-		-	529,691	
Transportation services	265,860	-	-	-	-		-	265,860	
	1,642,775	-	103,288	-	7,500		-	1,753,563	

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2011

	General	Student Activity	Management Levy	Capital Projects				Debt Service	Total
				Statewide Sales Use Tax	Physical Plant and Equipment Levy				
Other expenditures:									
AEA flowthrough	247,984	-	-	-	-		-	-	247,984
Debt service:									
Principal	-	-	-	-	-		-	535,000	535,000
Interest	-	-	-	-	-		-	438,038	438,038
Facilities acquisition and construction	-	-	-	6,064,843	107,503		-	-	6,172,346
	<u>247,984</u>	<u>-</u>	<u>-</u>	<u>6,064,843</u>	<u>107,503</u>		<u>973,038</u>	<u>973,038</u>	<u>7,393,368</u>
Total expenditures	<u>5,917,366</u>	<u>188,434</u>	<u>200,061</u>	<u>6,064,843</u>	<u>115,003</u>		<u>973,038</u>	<u>973,038</u>	<u>13,458,745</u>
Excess (deficiency) of revenues over (under) expenditures	<u>599,183</u>	<u>(6,334)</u>	<u>(8,409)</u>	<u>(5,674,394)</u>	<u>156,015</u>		<u>(478,334)</u>	<u>(478,334)</u>	<u>(5,412,273)</u>
Other financing sources:									
Operating transfers in	-	-	-	-	-		480,000	480,000	480,000
Operating transfers (out)	-	-	-	(300,000)	(180,000)		-	(480,000)	(480,000)
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>(300,000)</u>	<u>(180,000)</u>		<u>480,000</u>	<u>480,000</u>	<u>-</u>
Net change in fund balance	<u>599,183</u>	<u>(6,334)</u>	<u>(8,409)</u>	<u>(5,974,394)</u>	<u>(23,985)</u>		<u>1,666</u>	<u>(5,412,273)</u>	<u>(5,412,273)</u>
Fund balances beginning of year	<u>762,065</u>	<u>118,609</u>	<u>311,311</u>	<u>8,984,361</u>	<u>499,524</u>		<u>36,722</u>	<u>10,712,592</u>	<u>10,712,592</u>
Fund balances end of year	<u>\$ 1,361,248</u>	<u>112,275</u>	<u>302,902</u>	<u>3,009,967</u>	<u>475,539</u>		<u>38,388</u>	<u>5,300,319</u>	<u>5,300,319</u>

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2011

Net change in fund balances - total governmental funds (Exhibit E) \$ (5,412,273)

**Amounts reported for governmental activities in the State of
Activities are different because:**

Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities. This figure represents the change from the prior fiscal year.

1,921

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Expenditures for capital assets	\$ 6,274,765	
Depreciation expense	<u>(440,856)</u>	5,833,909

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is reported as an expenditure in the funds when due. In the Statement of Activities, interest expense is recorded as the interest accrues, regardless of when it is due.

2,367

Repayment of long-term liabilities is an expenditure in the Statement of Net Assets, but the repayment reduces long-term liabilities in the Statement of Net Assets.

535,000

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Other postemployment benefits	(26,994)
-------------------------------	----------

Internal Service Fund transactions are not reported in the General Fund as revenues and expenditures, however the General Fund is the source of these revenues and use of the expenditures.

 468

Change in net assets of governmental activities (Exhibit B) \$ 934,398

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2011

	Enterprise Funds			Governmental Activities
	School Nutrition	Discovery Day Care	Total	Internal Service
Assets				
Cash and pooled investments	\$ 50,228	58,492	108,720	149,265
Other receivables	7,807	-	7,807	2,088
Inventories	4,260	-	4,260	-
Capital assets, net of accumulated depreciation	9,581	-	9,581	-
Total assets	<u>71,876</u>	<u>58,492</u>	<u>130,368</u>	<u>151,353</u>
Liabilities:				
Accounts payable	<u>9,591</u>	<u>-</u>	<u>9,591</u>	<u>-</u>
Net assets				
Invested in capital assets, net of related debt	9,581	-	9,581	-
Reserved for employee benefits	-	-	-	151,353
Unrestricted	<u>52,704</u>	<u>58,492</u>	<u>111,196</u>	<u>-</u>
Total net assets	<u>\$ 62,285</u>	<u>58,492</u>	<u>120,777</u>	<u>151,353</u>

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds

Year ended June 30, 2011

	Enterprise Funds			Governmental Activities
	School Nutrition	Discovery Day Care	Total	Internal Service
Operating revenue:				
Local sources:				
Charges for services	\$ 139,303	189,319	328,622	703,822
Operating expenses:				
Non-instructional programs:				
Food service operations:				
Salaries	66,734	-	66,734	-
Benefits	40,141	-	40,141	-
Supplies	177,259	-	177,259	-
Depreciation	1,611	-	1,611	-
Total operating expenses	285,745	-	285,745	-
Community service programs:				
Salaries	-	114,128	114,128	-
Benefits	-	16,029	16,029	-
Services	-	28,284	28,284	-
Supplies	-	22,186	22,186	-
	-	180,627	180,627	-
Internal service programs:				
Benefits	-	-	-	703,354
Total operating expenses	285,745	180,627	466,372	703,354
Operating income (loss)	(146,442)	8,692	(137,750)	468
Non-operating revenues:				
Interest income	53	86	139	-
Contributions	-	1,500	1,500	-
State sources	2,504	-	2,504	-
Federal sources	160,449	-	160,449	-
	163,006	1,586	164,592	-
Change in fund net assets	16,564	10,278	26,842	468
Net assets beginning of year	45,721	48,214	93,935	150,885
Net assets end of year	\$ 62,285	58,492	120,777	151,353

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2011

	School Nutrition	Discovery Day Care	Total	Governmental Activities Internal Service
Cash flows from operating activities:				
Cash received from sale of services	\$ 135,120	189,319	324,439	701,734
Cash paid to employees for services	(106,875)	(141,701)	(248,576)	(703,354)
Cash paid to suppliers for goods or services	(159,634)	(50,470)	(210,104)	-
Net cash provided by (used by) operating activities	(131,389)	(2,852)	(134,241)	(1,620)
Cash flows from non-capital financing activities:				
State grants received	2,504	-	2,504	-
Federal grants received	151,896	-	151,896	-
Net cash provided by non-capital financing activities	154,400	-	154,400	-
Cash flows from capital financing activities:				
Capital contributions	-	1,500	1,500	-
Acquisition of capital assets	(10,317)	-	(10,317)	-
Net cash provided by non-capital financing activities	(10,317)	1,500	(8,817)	-
Cash flows from investing activities:				
Interest on investments	53	86	139	-
Net (decrease) in cash and cash equivalents	12,747	(1,266)	11,481	(1,620)
Cash and cash equivalents beginning of year	37,481	59,758	97,239	150,885
Cash and cash equivalents end of year	\$ 50,228	58,492	108,720	149,265
Reconciliation of operating income (loss) to net cash provided by (used by) operating activities:				
Operating income (loss)	\$ (146,442)	8,692	(137,750)	468
Adjustments to reconcile operating income (loss) to cash provided by (used by) operating activities:				
Depreciation expense	1,611	-	1,611	-
Commodities used	8,553	-	8,553	-
(Increase) in other receivables	(4,183)	-	(4,183)	(2,088)
Decrease in inventory	5,337	-	5,337	-
Increase in accounts payable	3,735	-	3,735	-
(Decrease) in accrued payroll and benefits	-	(11,544)	(11,544)	-
Net cash used by operating activities	\$ (131,389)	(2,852)	(134,241)	(1,620)

Non-cash investing, capital and financing activities:

During the year ended June 30, 2011, the District received federal commodities valued at \$8,853.

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2011

	Private Purpose Trusts	Agency Funds Sports Boosters
Assets		
Cash and pooled investments	\$ 9,434	21,690
Liabilities		
Other payables	-	21,690
Net Assets		
Reserved for special purposes	\$ 9,434	-

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2011

	Private Purpose <u>Trust Fund</u>
Additions:	
Local sources:	
Miscellaneous	\$ -
Total additions	-
Deductions:	
Support services:	
Scholarships	-
Change in net assets	-
Net assets beginning of year	9,434
Net assets end of year	\$ 9,434

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

Pocahontas Area Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Pocahontas, Rolfe, Havelock & Plover, Iowa, and agricultural area in Pocahontas and Palo Alto Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Pocahontas Area Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Pocahontas Area Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Pocahontas County Assessor's Conference Board.

The Discovery Day Care Fund is a day care facility run by the District as part of a 28E agreement with the Pocahontas Community Hospital and the City of Pocahontas. As part of the agreement, the Hospital and City agree to cover all operating losses.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The District has elected to present all funds major funds for clarity of presentation.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Management Levy Fund is utilized for the payment of insurance, unemployment and early retirement benefits.

The Student Activity Fund is used to account for extra curricular activities conducted on behalf of the students.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund, Physical Plant and Equipment Levy is used for the acquisition of capital assets (over \$500) and the maintenance and purchase of land improvements and facilities.

The Capital Projects Fund, Statewide Sales, Services and Use Tax is used to account for all resources used in the acquisition and construction of capital facilities.

The District's major proprietary funds are the Enterprise, School Nutrition Fund, Discovery Day Care and Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the District's medical insurance plan.

Discovery Day Care accounts for the operation of a day care center as part of a 28E agreement with the Pocahontas Community Hospital and the City of Pocahontas.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Current property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2010.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment and intangibles are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The District had no intangible assets meeting the threshold limit of \$50,000 approved by the Board of Education. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years. No intangible assets were noted that exceeded the threshold amount.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	1,000
Intangible assets	50,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Intangible assets	5-10 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied as well as unspent grant proceeds.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2011.

Long-Term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011 expenditures did not exceed the amounts budgeted in any of the four functions. The District did not exceed its General Fund unspent authorized budget.

2) Cash and Pooled Investments

The District's deposits at June 30, 2008 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2011, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$2,185,832 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk - The investments in the Iowa School Joint Investment Trust were rated Aaa by Moody's Investors Service.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 143,945	9,917	-	153,862
Construction in progress	3,561,624	-	3,561,624	-
Land	3,705,569	9,917	3,561,624	153,862
Capital assets being depreciated:				
Site Improvements	475,787	151,535	-	627,322
Buildings	3,445,085	9,593,263	-	13,038,348
Furniture and Equipment	3,215,265	81,674	-	3,296,939
Total capital assets being depreciated	7,136,137	9,826,472	-	16,962,609
Less accumulated depreciation for:				
Site Improvements	315,734	28,319	-	344,053
Buildings	2,235,769	260,767	-	2,496,536
Furniture and Equipment	2,629,289	151,770	-	2,781,059
Total accumulated depreciation	5,180,792	440,856	-	5,621,648
Total capital assets being depreciated, net	1,955,345	9,385,616	-	11,340,961
Governmental activities, capital assets, net	<u>\$ 5,660,914</u>	<u>9,395,533</u>	<u>3,561,624</u>	<u>11,494,823</u>
Business type activities:				
Furniture and equipment	\$ 37,092	10,317	-	47,409
Less accumulated depreciation	36,217	1,611	-	37,828
Business type activities capital assets, net	<u>\$ 875</u>	<u>8,706</u>	<u>-</u>	<u>9,581</u>
Depreciation expense was charged to the following functions:				
Governmental activities:				
Unallocated				<u>\$ 440,856</u>
Business Type activities:				
Food service operations				<u>\$ 1,611</u>

(4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.50% of their annual salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$256,272, \$247,598, and \$249,848 respectively, equal to the required contributions for each year.

(5) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$247,984 for year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(6) Commitments

In December, 2008, the voters of the District approved a \$10,890,000 bond issue for constructing a major addition to the existing middle school/high school. As of June 30, 2011, contracts totaling \$8,979,835 had been signed. \$8,195,585 of costs had been incurred and are included in cost of building in Note 3. The balance of \$784,250 will be paid as work on the project progresses. The remaining balance is primarily an entrance to the gymnasium that is separate from the remainder of the project, thus costs to date were capitalized.

(7) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2011 are summarized as follows:

	Balance Beginning Year	Additions	Reductions	Balance End of Year	Due Within One Year
Net OPEB Liability	\$ 26,774	26,994	-	53,768	-
General Obligation Bonds	10,550,000	-	355,000	10,195,000	370,000
USDA Rural Development Loan	360,000	-	180,000	180,000	26,667
Total	<u>\$10,936,774</u>	<u>26,994</u>	<u>535,000</u>	<u>10,428,768</u>	<u>396,667</u>

General Obligation Bonds Payable

Details of the District's June 30, 2011 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May 1, 2009			
	Rates	Interest	Principal	Total
2012	4.00%	\$ 423,839	370,000	793,839
2013	4.00	409,039	390,000	799,039
2014	4.00	393,439	405,000	798,439
2015	4.00	377,239	425,000	802,239
2016	4.00	360,239	445,000	805,239
2017-2021	4.00	1,515,595	2,575,000	4,090,595
2022-2026	4.00-4.30	942,525	3,245,000	4,187,525
2027-2029	4.375-4.50	210,959	2,340,000	2,550,959
Total		<u>\$4,632,874</u>	<u>10,195,000</u>	<u>14,823,874</u>

USDA Rural Development Loan - In 2010, the District obtained a \$360,000 loan from the United States Department of Agriculture through the City of Pocahontas to finance the purchase of equipment. The loan is interest free. 108 monthly payments of \$3,333.34 are required beginning in fiscal year 2011. In fiscal year 2011 the District paid a total of \$180,000 towards the principal.

(8) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses. There are 70 active and 11 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which result in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefits plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 45,320
Interest on net OPEB obligation	669
Adjustment to annual required contribution	(3,454)
Annual OPEB cost	42,535
Contributions made	(15,541)
Increase in net OPEB obligation	26,994
Net OPEB obligation beginning of year	26,774
Net OPEB obligation end of year	\$ 53,768

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2011, the District contributed \$15,541 to the medical plan.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$42,756	37.4%	\$26,774
June 30, 2011	\$42,535	36.5%	\$53,768

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$414,109, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$414,109. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,827,000 and the ratio of the UAAL to covered payroll was 10.8%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from information provided by the District.

The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(12) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	Capital Projects, Physical Plant and Equipment Levy	Special Revenue, Physical Plant and Equipment Levy
Balances June 30, 2010, as previously reported	\$ -	499,524
Change in fund type classification per implementation of GASB Statement No. 54	<u>499,524</u>	<u>(499,524)</u>
Balances July 1, 2010, as restated	<u>\$499,524</u>	<u>-</u>

(13) Reorganization

The voters of the Pocahontas Area Community School District and the Pomeroy-Palmer Community School District approved to reorganize effective July 1, 2012. The new district will be known as the Pocahontas Area Community School District.

Required Supplementary Information

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2011

	Governmental Fund Types	Proprietary Fund Type	Total Actual	Budgeted Amounts	Final to Actual Variance
	Actual	Actual	Actual	Original	Final
Revenues:					
Local sources	\$ 5,098,616	330,261	5,428,877	4,945,342	483,535
State sources	2,463,733	2,504	2,466,237	2,773,118	(306,881)
Federal sources	484,123	160,449	644,572	470,000	174,572
Total revenues	<u>8,046,472</u>	<u>493,214</u>	<u>8,539,686</u>	<u>8,188,460</u>	<u>351,226</u>
Expenditures/Expenses:					
Instruction	4,311,814	-	4,311,814	5,627,160	1,315,346
Support services	1,753,563	-	1,753,563	2,920,000	1,166,437
Non-instructional programs	-	466,372	466,372	584,060	117,688
Other expenditures	7,393,368	-	7,393,368	10,659,970	3,266,602
Total expenditures/expenses	<u>13,458,745</u>	<u>466,372</u>	<u>13,925,117</u>	<u>19,791,190</u>	<u>5,866,073</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(5,412,273)	26,842	(5,385,431)	(11,602,730)	6,217,299
Other financing sources (uses)	-	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses and other financing uses	(5,412,273)	26,842	(5,385,431)	(11,602,730)	6,217,299
Balance beginning of year	10,712,592	93,935	10,806,527	10,600,503	206,024
Balance end of year	<u>\$ 5,300,319</u>	<u>120,777</u>	<u>5,421,096</u>	<u>(1,002,227)</u>	<u>6,423,323</u>

See accompanying independent auditor's report.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Note to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2011

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2011, expenditures did not exceed the amounts budgeted in any of the four functions. The District did not exceed the General Fund unspent authorized budget.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Funding Progress for the
Retiree Health Plan
(In Thousands)

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	Jul 1, 2009	\$0	\$433	\$433	0.0%	\$3,980	10.9%
2011	Jul 1, 2009	\$0	\$414	\$414	0.0%	\$3,827	10.8%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

Other Supplementary Information

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2011

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Computer Supplies	\$ -	-	-	-
Graduated Classes	8,427	-	-	8,427
Class of 2008	-	-	-	-
Class of 2009	-	-	-	-
Class of 2010	2,862	-	872	1,990
Class of 2011	2,664	100	1,727	1,037
Class of 2012	615	14,939	11,703	3,851
Class of 2013	206	245	58	393
Class of 2014	-	265	58	207
Locker Rent	1,622	58	-	1,680
Board of Education	305	1,085	355	1,035
Mock Trial	1,062	101	257	906
Juice/Water/HS Commons	-	-	384	(384)
Pop/Juice - Vending	2,952	5,669	5,505	3,116
Restroom vending	-	50	50	-
Vocal Music	921	2,209	1,805	1,325
Instrumental Music	6,446	4,550	5,376	5,620
Music Memorial	-	530	-	530
Band Uniforms	910	620	341	1,189
Band Insurance	686	-	-	686
Drill Team	3,661	11,695	13,061	2,295
Football	-	10,283	9,436	847
Cheerleaders	1,101	1,411	1,356	1,156
Weight Training	437	-	-	437
Golf	-	1,521	1,521	-
Basketball	6,332	12,295	10,547	8,080
Boys Basketball Camp	1,028	2,345	2,821	552
Volleyball	1,097	2,010	2,664	443
Softball/Baseball	-	8,696	8,696	-
Softball Trips	39	-	-	39
Track	-	5,129	5,129	-
Track Trip - Boys	280	504	570	214
Track Trip - Girls	2,726	-	165	2,561
Cross Country	-	905	905	-
Wrestling	-	3,072	3,072	-
Activity Tickets	4,864	5,828	9,562	1,130
Activity Tickets/Senior Citizens	1,392	90	-	1,482
Wrestling Mothers	8,833	13,380	12,325	9,888
Football Camp	2,285	5,560	7,794	51
Athletic Resale	1,110	888	931	1,067
Volleyball Camp	669	1,841	1,860	650
District Football	-	-	-	-
Girls Basketball Camp	2,902	4,841	4,628	3,115
Cross Country Special Fund	49	10	59	-

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2011

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Trading Post Store	1,472	11,342	11,139	1,675
Art Club	166	-	72	94
Mystery Photo Contest	50	-	-	50
Student Council	164	-	-	164
Character Education	486	2,686	1,482	1,690
FFA	7,937	15,248	13,653	9,532
Home Ec Club	14	-	-	14
Home Ec Resale	53	-	-	53
Spanish Club	192	-	-	192
Annual	6,702	6,283	9,794	3,191
Softball/Baseball Combined Concessions	4,026	8,234	6,733	5,527
Softball Concessions	1,599	1,134	1,656	1,077
Baseball Concessions	2,843	2,303	2,658	2,488
Wellness	403	365	462	306
Dramatics	-	1,057	778	279
National Honor Society	649	-	113	536
Softball Parents	2,719	-	2,529	190
Elementary Sunshine Fund	580	520	557	543
Energy and Power Class	-	273	273	-
Swing Choir	450	-	-	450
Mentoring Program	45	-	-	45
Task Force Fund	156	-	-	156
MS Concessions	785	-	-	785
Jump Rope for Heart	3,156	-	-	3,156
HS Take Charge for Education	1,577	1,506	113	2,970
Schwig Marketing	783	30	488	325
MS Take Charge for Education	172	148	-	320
Carnival	1,349	1,177	700	1,826
After Prom Party	2,895	6,082	8,210	767
Interest	8,703	987	1,431	8,259
	<u>8,703</u>	<u>987</u>	<u>1,431</u>	<u>8,259</u>
Total	\$ 118,609	182,100	188,434	112,275

See accompanying independent auditor's report.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Eight Years

	Modified Accrual Basis							
	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:								
Local sources:								
Local tax	\$ 3,979,879	3,447,734	2,775,254	2,698,079	2,741,371	2,860,784	2,427,585	2,517,174
Tuition	705,017	788,471	322,126	256,959	306,267	299,640	272,844	372,820
Other	413,720	631,147	387,949	438,379	452,789	474,365	647,988	469,473
State sources	2,463,733	2,399,108	3,057,598	3,131,561	2,892,756	2,977,811	3,044,235	2,770,916
Federal sources	484,123	471,758	211,396	156,493	195,572	194,882	246,869	208,871
Total	<u>\$ 8,046,472</u>	<u>7,738,218</u>	<u>6,754,323</u>	<u>6,681,471</u>	<u>6,588,755</u>	<u>6,807,482</u>	<u>6,639,521</u>	<u>6,339,254</u>
Expenditures:								
Instruction	\$ 4,311,814	4,434,402	4,359,888	4,241,245	3,924,140	4,082,812	4,178,727	4,429,520
Support services:								
Student	191,528	187,015	200,865	195,476	185,746	210,223	216,071	221,500
Instructional staff	121,600	157,527	158,918	182,084	177,872	171,911	263,801	105,627
Administration	644,884	627,934	664,608	616,079	702,218	660,310	587,190	599,322
Operation and maintenance of plant	529,691	563,871	545,936	557,945	529,866	572,294	917,113	502,100
Transportation	265,860	285,690	265,195	285,589	320,268	280,330	252,082	297,064
Non-instructional programs	-	2,475	1,607	6,037	2,824	4,037	2,790	5,165
Other expenditures:								
Debt Service:								
Principal	535,000	-	-	-	-	-	24,457	54,459
Interest	438,038	-	-	-	-	-	612	3,274
Facilities acquisition	6,172,346	3,886,677	592,724	154,854	112,518	359,164	-	182,124
AEA flowthrough	247,984	249,853	234,021	230,198	225,342	219,447	222,156	226,294
Total	<u>\$ 13,458,745</u>	<u>10,395,444</u>	<u>7,023,762</u>	<u>6,469,507</u>	<u>6,180,794</u>	<u>6,560,528</u>	<u>6,664,999</u>	<u>6,626,449</u>

See accompanying independent auditor's report.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY11	\$ 17,916
Food Distribution (non-cash)	10.555	FY11	8,553
Summer Food Service Program for Children	10.559	FY11	11,281
National School Lunch Program	10.555	FY11	101,269
			<u>139,019</u>
School Lunch Equipment Grants Stabilization	10.579	FY11	10,991
Child and Adult Care Food Program	10.558	FY11	10,439
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	FY11	87,920
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY11	32,596
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	FY11	75,413
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	FY11	24,297
Improving Teacher Quality - States Grants	84.367	FY11	32,016
Grants for Assessments and Related Activities	84.369	FY11	3,029
Rural Education Achievement Program	84.358	FY11	23,757
Vocational Education - Basic Grants to States	84.048	FY11	8,952
Education Jobs Fund	84.410	FY11	103,506
Prairie Land AEA 8			
ARRA - Special Education Grants to States, Recovery Act	84.390	FY11	63,987
Special Education - Grants to States (IDEA Part B)	84.027	FY11	27,800
U.S. Department of Health and Human Services:			
Iowa Department of Education:			
Cooperative Agreements to Support Comprehensive School Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	FY11	<u>850</u>
Total			<u>\$ 644,572</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Pocahontas Area Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

BRUCE D. FRINK

Certified Public Accountant

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual, Partnership and Corporate Tax Preparation
- Year Round Tax Planning
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Financial Statement Preparation
- Bank Loan Assistance

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Board of Education of the
Pocahontas Area Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of Pocahontas Area Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 26, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pocahontas Area Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Pocahontas Area Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Pocahontas Area Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-11 and II-B-11 to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-C-11 to be significant deficiency.

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Compliance and Other Matters

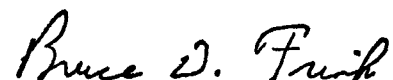
As part of obtaining reasonable assurance about whether Pocahontas Area Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted no instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Pocahontas Area Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Pocahontas Area Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pocahontas Area Community School District and other parties to whom Pocahontas Area Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Pocahontas Area Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



BRUCE D. FRINK
Certified Public Accountant

March 26, 2012

BRUCE D. FRINK

Certified Public Accountant

Independent Auditor's Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major
Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual, Partnership and Corporate Tax Preparation
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- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
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- Extended Hours During Tax Season

To the Board of Education of
Pocahontas Area Community School District:

Compliance

We have audited the compliance of Pocahontas Area Community School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Pocahontas Area Community School District's major federal programs for the year ended June 30, 2011. Pocahontas Area Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Pocahontas Area Community School District's management. Our responsibility is to express an opinion on Pocahontas Area Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pocahontas Area Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Pocahontas Area Community School District's compliance with those requirements.

In our opinion, Pocahontas Area Community School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

The management of Pocahontas Area Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Pocahontas Area Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pocahontas Area Community School District's internal control over compliance.

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Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-11 to be a material weakness.

Pocahontas Area Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Pocahontas Area Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pocahontas Area Community School District and other parties to whom Pocahontas Area Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



BRUCE D. FRINK
Certified Public Accountant

March 26, 2012

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A material weakness in internal control over major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.394 - AARA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act
 - CFDA Number 84.410 - Education Jobs Fund
 - Clustered programs:
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.559 - Summer Food Service Program for Children
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Pocahontas Area Community School District did not qualify as a low-risk auditee.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

II-A-11 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We have noted the duties of the individual include: 1) preparation of checks, signing of checks, recording the transactions in the journals, and reconciling the bank; 2) receiving cash receipts, preparing the receipt, making up the bank deposit, and recording the transaction in the journals.

Recommendation - We realize with a limited number of administrative employees, segregation of duties to eliminate incompatible duties is difficult. We also realize the job description, as defined by the Code of Iowa, of certain members of the administrative staff make the segregations even more difficult and the elimination of the possibility of administrative override of the system improbable. However, we feel the board and administration should review these policies annually and with each personnel change to insure the best possible control climate is maintained.

Response - We will investigate possible alternatives to this situation.

Conclusion - Response accepted.

II-B-11 Auditor Drafting of the Financial Statements and Related Footnote Disclosures - As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. SAS 115, an auditing standard from the American Institute of Certified Public Accountants, requires auditors to communicate this situation as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the District's statements and footnotes, and the responsibility of the auditor to determine the fairness of the presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do this with organizations of your size. However, based on this auditing standard, it is our responsibility to inform you that this deficiency could result in a misstatement to the financial statements that could have been prevented or detected by the District's management. As in prior years, we have instructed management to review a draft of the auditor prepared financial statements in detail for their accuracy, we have answered any questions they might have, and encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your financial statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.

Recommendation - It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response - We feel our review of the draft financials is adequate for us to accept this risk.

Conclusion - Response accepted.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part II: Findings Related to the Financial Statements:
(continued)

II-C-11 Financial Reporting - During the audit, we identified material amounts of payables in the Capital Projects Fund which were not recorded in the District's financial statements. Adjustments were subsequently made by the District to properly include these amounts in the financial statements.

Recommendation - The District should implement procedures to ensure all payables are identified and included in the District's financial statements.

Response - We will double check these in the future to avoid missing any payables.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 84.410 - Education Jobs Fund
Federal Award Year: 2011
US Department of Education
Passed through Iowa Department of Education

CFDA Number 84.394 - ARRA State Fiscal Stabilization Fund Education (SFSF) - Education State Grants, Recovery Act
Federal Award Year: 2011
US Department of Education
Passed through Iowa Department of Education

CFDA Number 10.553 - School Breakfast Program
CFDA Number 10.555 - National School Lunch Program
CFDA Number 10.559 - Summer Food Service Program for Children
Federal Award Year: 2011
US Department of Agriculture
Passed through Iowa Department of Education

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part III: Findings and Questioned Costs For Federal Awards:
(continued)

III-A-11 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We have noted the duties of the individual include: 1) preparation of checks, signing of checks, recording the transactions in the journals, and reconciling the bank; 2) receiving cash receipts, preparing the receipt, making up the bank deposit, and recording the transaction in the journals.

Recommendation - We realize with a limited number of administrative employees, segregation of duties to eliminate incompatible duties is difficult. We also realize the job description, as defined by the Code of Iowa, of certain members of the administrative staff make the segregations even more difficult and the elimination of the possibility of administrative override of the system improbable. However, we feel the board and administration should review these policies annually and with each personnel change to insure the best possible control climate is maintained.

Response - We will investigate possible alternatives to this situation.

Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-11 Certified Budget - Expenditures for the year ended June 30, 2011, did not exceed the certified budget amounts in any of the four functions. The District did not exceed its unspent authorized budget for the year ending June 30, 2011.

IV-B-11 Questionable Expenditures - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-11 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-11 Business Transactions - No business transactions between the District and District officials or employees were noted.

IV-E-11 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-11 Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.

IV-G-11 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.

IV-H-11 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

IV-I-11 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part IV: Other Findings Related to Required Statutory Reporting:
(continued)

- IV-J-11 Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education.
- IV-K-11 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.
- IV-L-11 Statewide sales, services and use tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$8,984,361
Revenues/transfers in:		
Sales tax revenues	\$ 321,163	
Other local revenues	<u>69,286</u>	<u>390,449</u>
		8,374,810
Expenditures/transfers out:		
School infrastructure construction	5,901,441	
Equipment	163,402	
Transfers to other funds:		
Debt service fund	<u>300,000</u>	<u>6,364,843</u>
Ending balance		<u>\$3,009,967</u>

For the year ended June 30, 2011, the District reduced the following levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

	Rate of Levy Reduction Per \$1,000 Of Taxable Valuation	Property Tax Dollars Reduced
Debt service levy	<u>\$1.31</u>	<u>\$300,000</u>